

# OIG Fraud Bulletin

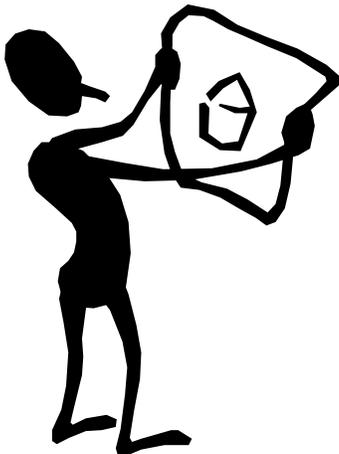
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## United States Nuclear Regulatory Commission

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This bulletin is intended to alert NRC employees to the possibility of impropriety in NRC programs and operations, and cause NRC employees to take appropriate action to refer matters involving potential criminal violations to OIG for appropriate investigation or review. With the advent of revolutionary changes in technology, our society is now able to conduct banking, shopping and numerous other personal activities via computer without ever leaving the confines of the home. These technological changes have brought with them new and innovative fraud scams which place the public at risk of substantial financial loss. Consequently, we are also using this fraud bulletin as a means to alert NRC employees to fraud schemes that the employee should be sensitive to in conducting their personal affairs.

## Fraud Schemes

The criminal statutes most often used against government contractors and government employees who commit fraud include False Statements, False Claims and Conspiracy to Defraud.

### **False Statements 18 United States Code (U.S.C.) § 1001**

This statute renders the willful making of an untrue official statement a crime. Under the statute, it is illegal to engage in any of three types of activity in any manner within the jurisdiction of any department or agency of the United States: 1) falsifying, concealing, or covering up a material fact by any trick, scheme, or device; 2) making false, fictitious, or fraudulent statements or representations; or 3) making or using any false documents or writing.

Thus, a government employee or contractor can be held subject to prosecution for acting in a fraudulent manner including, swearing to an untrue statement on a financial disclosure form, or on an application for a government entitlement program or for any form of payment. This could be the result of a false contract voucher, false certification to NRC of no organizational conflict of interest, a false Time and Attendance (T&A) report, or a false Federal Employees Compensation Act (FECA) application.

The following is an illustration of the type of conduct which resulted in convictions for violations of this statute. A contractor was required to provide test certifications to the Department of Defense for parts it supplied for use in the breach mechanism of a 105mm cannon. The test certifications provided by the contractor contained

false representations because the tests had not been performed. The contractor was convicted of making false statements in violation of 18 U.S.C. §1001 for that conduct. It is significant to note that the contractor was prohibited from introducing evidence that the parts would have passed the tests if they were performed. The only relevant issue was whether the tests had been performed at the time the contractor made its certifications. The crime is complete upon the submission of the statement to the government. It is not necessary to prove that the government relied on or was harmed by the false statement.

### **False Claims 18 U.S.C. § 287**

This statute makes it illegal to knowingly submit a claim to the government for money that is undeserved or to present or make any false, fictitious, or

fraudulent claim against any agency or department of the United States. The crime is complete when the claim is presented. Payment of the claim is not an element of the offense and need not be proven to obtain a conviction. (In a related civil statute, 31 U.S.C. § 3729, the United States can recover treble damages, plus the cost of the civil action, plus a forfeiture of \$5,000 to \$10,000 per false claim for any false claims against the government).

False travel claims and contract vouchers are examples of this type of fraud.

The following scheme is typical of false claims violations which result in convictions. A contractor altered subcontractor invoices to show inflated prices on purchases made from a subcontractor. The inflated prices were then charged to the government resulting in a monetary loss of over \$1 million. The company paid a

total of \$3 million in fines, penalties, and restitution. The executive vice president was sentenced to five consecutive two year prison terms.

### **Conspiracy to Defraud 18 U.S.C. § 371**

This statute renders it illegal to agree with another person, or to take joint action, to defraud the government. A conspiracy is defined as two or more persons agreeing to commit a crime. Society views conspiracy as a serious offense and worthy of separate punishment because two or more persons working together can do more harm than one and because a conspirator, by definition, must have planned or premeditated the crime. Thus, a supervisor who agreed with a subordinate to falsify the overtime on time cards would have entered into a conspiracy.

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## **Government Employee Convicted for Bribery**

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Ronald Luna, former Project Engineer for the Directorate of Public Works and Logistics Division, Fort Bliss, TX, demanded and accepted cash and checks from a government contractor, King's Aire, El Paso, TX, in return for being influenced in the official performance of his duties as a project engineer at Ft. Bliss Army Base. Luna also falsified delivery orders with King's Aire increasing the

value of the delivery orders while allowing the submission of invoices that were inflated by over \$100,000. Luna expected to be paid a portion of the inflated billings after King's Aire received payment from the Defense Finance and Accounting Service.

Luna had previously been indicted by a Federal grand jury on four counts of bribery and two counts of false claims against the United States. On

June 2, 2000, Luna was sentenced to 27 months in prison and 3 years supervised proba-



tion. In addition, Luna was ordered to pay \$2,500 in criminal fines.

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## Contractor Officers Sentenced for False Statements

On April 28, 1999, Sharp Construction Company, Inc., (Sharp, Inc.) plead guilty to making false statements to the Department of Labor (DOL) in connection with a Department of Veterans Affairs program. Sharp Inc., aided and abetted the making and preparation of false certified payrolls and the submission of these false payrolls to the DOL. Canale plead guilty to conspiring to make false statements to the DOL. Canale prepared and submitted false certified payrolls to the DOL on a Veterans Affairs and U.S Army contract. Bommegowda's guilty plea is based on false testimony before the Federal grand jury regarding the submission of false certified payroll to the government.

The investigation revealed that Sharp Inc., failed to pay its employees at the prevailing wage rates pursuant to the Davis Bacon Act, Title 40, United States Code, §76a. Sharp Inc., specializes in the construction of government facilities and worked for several Federal government agencies, including the United States Postal Service (USPS). Investigators were able to determine that during the time Sharp Inc., performed work under a USPS contract valued at approximately \$2 million, he obtained approximately \$14,000 from the USPS through the submission of false certified payroll reports. Sharp Inc., worked on various USPS projects from 1986 through 1993.

On September 23, 1999, Sharp Inc., Alfred E. Canale, former

comptroller for Sharp Inc., and Bommegowda Lokesh, former project manager for Sharp Inc., were sentenced for making false payroll reports in connection with federally funded government contracts.

Sharp Inc., was sentenced to 3 years probation and a \$25,000 fine. Currently suspended, Sharp Inc., also may be permanently barred from receiving future government contracts. The company has also paid restitution. Canale was sentenced to 2 months in a half-way house, 6 months home detention, and 3 years probation. Lokesh was sentenced to 3 years probation, 6 months home confinement, and a \$2,000 fine.

## Theft of Government-Owned Fuels

The investigation of Charles Rabico, an owner of Owners Operators Petroleum Cooperation (OOPC), Ontario, CA was the result of a 3 year investigation into the theft and re-sale of government-owned fuels. OOPC, a trucking company owned by Rabico, was under contract with the Defense Energy Supply Center (DESC), San Pedro, CA to transport jet aircraft fuel to various military installations throughout Southern California. Rabico conspired with Dale Mellies, Assistant Su-

perintendent for the Allied Management of Texas, a company under contract to manage distribution of military fuels at DESC, San Pedro, CA, in order to illegally remove several thousand gallons of military jet fuel. The fuel was resold to the commercial aviation market or blended with other fuels and resold to commercial gas stations as diesel fuel. Mellies was also convicted/sentenced on similar charges in April 1999.

On June 24, 1999, Rabico pled guilty to a three-count indictment that charged him with conspiracy,

submitting false statements and theft of U.S. Government property in connection with Department of Defense contracts. On October 20, 1999, Rabico, was sentenced to 4 months home detention and 36 months supervised probation.



## Company Officer Sentenced

Mirza Ali operated as a principal of his wife's company, Samtech Research, Fremont, CA, despite his previous debarment from Federal contracting by the United States Department of Health and Human Services. Ali utilized the aliases Zulfiqar Eqbal and Henry Stone to further the fraud schemes. Samtech Research was awarded Department of Defense (DoD) contracts valued at more than \$3 million during the debarment period based upon the false statements of Ali and his wife, Sameena Ali. The DoD discovered Ali's previous debarment and cancelled the contracts prior to paying Samtech Research any funds.

The investigation disclosed that Ali, using an alias and an illegally obtained social security number, applied for an \$800,000 home construction loan from Cupertino National Bank, Cupertino, CA. Ali obtained in excess of \$240,000 from Cupertino National Bank under false pretenses and by providing false information to the bank's loan officer. Cupertino National Bank is a federally insured bank.

On September 24, 1999, Ali was convicted of making false statements to the United States Government, conspiracy to make false statements to the United States Government, making a false loan application

and bank fraud. On April 24, 2000, Ali was sentenced in Federal District Court, Northern District of California, Oakland, CA, to 30 months incarceration, 4 years supervised probation upon release, ordered to pay \$602,682 in restitution to the



Cupertino National Bank and to pay a special assessment of \$600 to the Department of Justice.

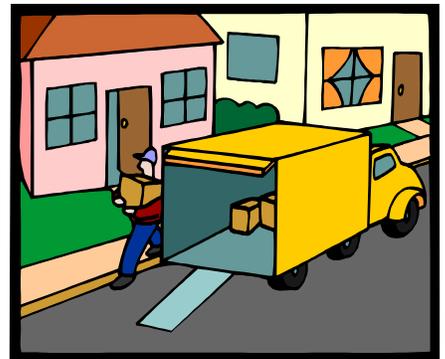
## False Expenses

Walter Anthony Adams, a general supply specialist, Defense Logistics Information Service, Defense Logistics Agency, Battle Creek, MI, submitted a false claim for reimbursement of moving expenses in connection with his relocation from Columbus, OH, to Battle Creek, MI. Specifically, Adams claimed his wife and children accompanied him on various dates from May 1998 to August 1998, during his permanent change of station relocation. Adams claimed he was entitled to a larger per

diem, or daily living expense reimbursement than he was entitled to claim. The investigation revealed Adams never conducted a house-hunting trip; that Adams' girlfriend, not his wife, along with the girlfriends' children and some of Adams' children relocated to Battle Creek; and that Adams had falsely claimed rent and breach of lease payments on an apartment in Ohio. Adams was not making any such payments and the false claim caused losses to the government in excess of \$25,000.

On May 15, 2000, Adams was sentenced to 6 months home detention, 5 years probation, restitution of \$24,041 and a \$100.00 special assessment fee.

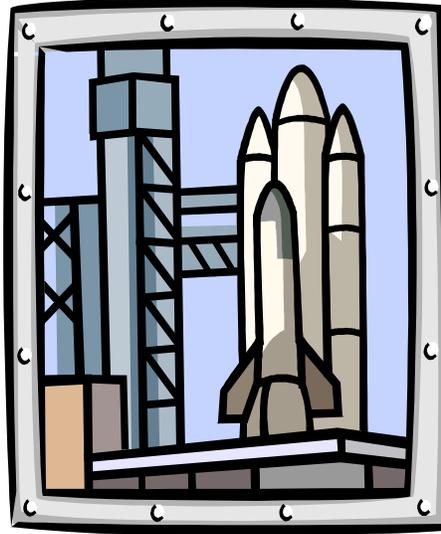
On May 30, 2000, Adams entered into a civil settlement agreement with the U.S. Attorney's Office, Grand Rapids, MI. In accordance with the agree-



ment, Adams will pay the government \$28,213 plus accrued interest.

## Supply Company Misrepresented Product

Robert M. Silver, former President of Silver Sales, Inc., (SSI), Calabasas, CA, who had been previously suspended and debarred from conducting business with the government, submitted false claims to the Defense Supply Center (DSC), Richmond, VA, misrepresenting the manufacturer and quality of the chemical products supplied on DSC contracts. NASA and other government agencies purchased chemicals from the DSC. NASA used one of SSI's non-approved chemicals to control humidity while testing engines which were destined for the NASA Orbiter.



On February 1, 2000, Silver was sentenced in U.S. District Court, Los Angeles, CA to 33 months incarceration, 3 years supervised release, restitution to the government in the amount of \$148,088.93, and ordered to pay a \$50 special assessment.

Silver was immediately remanded to the custody of the U.S. Marshals to begin serving his sentence.

## Electric Company Violated Major Fraud Act

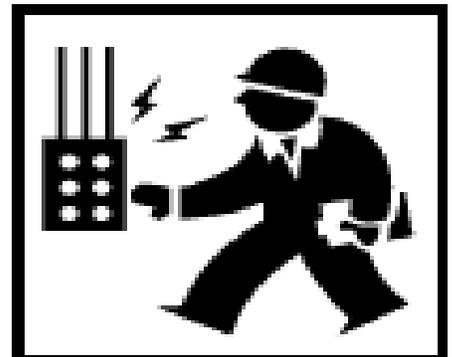
Olson was created by Olson Electric Company, Daytona Beach, FL in order to obtain small business set-aside contracts at Kennedy Space Center (KSC), FL. Olson falsely certified it was a small woman-owned business in order to obtain a \$3.2 million National Aeronautics and Space Administration (NASA) subcontract to refurbish a Shuttle Launch Pad at KSC. The firm then entered into management agreements with Olson Electric Company to perform the contract. The bid submitted by Olson was an identical match to the government's independent

in-house estimate. Olson was also awarded a NASA subcontract valued at \$850,000 to perform electrical modifications at KSC. In furtherance of the scheme to defraud, Olson submitted numerous false claims under the two subcontracts resulting in overpayment totaling approximately \$885,519.

On November 17, 1999, Olson pled guilty to a one count criminal information for violating the Major Fraud Act, Title 18 U.S.C. § 1031 (defrauding the United States in order to obtain money or property by means of false and fraudulent pretenses,

representations and promises).

On February 16, 2000, Olson was sentenced in U.S. District Court, Orlando, FL, and ordered to pay \$885,519 in restitution to NASA and a special assessment of \$200.



## Restitution of almost 1.5m for dumping petroleum-based wastewater

On October 20, 1999, Attaluri, Allied Environmental and Overholt, were found guilty of conspiracy to inject liquid waste into a Class II Disposal Well without a permit; transporting hazardous waste without a Manifest; mail and wire fraud. In addition, the subjects were found guilty of defrauding the United States by impeding, obstructing and defeating the lawful function of the Environmental Protection Agency and the Department of Defense. Overholt was also found guilty of violating the Clean Water Act, Resources Conservation and Recovery act and making false statement to government officials. The guilty verdicts were a result of a 6-week trial held in the Northern District of Oklahoma, Tulsa, OK.

Allied entered into subcontracts with three separate corporations, which had contracted with the United States Government to remove underground storage tanks and the associated petroleum-impacted wastewater from various military facilities in Kansas and Missouri. Pursuant to the subcontracts, Allied and Attaluri agreed to remove the wastewater, properly treat the wastewater at their Bonner Springs Kansas Tank Farm to remove the petroleum, and properly dis-

pose of the water. Allied and Attaluri knew that the treatment utilized at their Bonner Springs Tank Farm could not treat the petroleum-impacted wastewater properly and remove the petroleum adequately.

Allied and Attaluri then arranged with Overholt to have the improperly treated wastewater transported to Oklahoma and illegally injected into disposal wells in Cushing, Buffs, and Lincoln County, OK. The



unauthorized use of injection wells is prohibited in order to prevent endangerment of underground drinking water sources.

The activity took place over a 15-month period during 1994 and 1995 and involved the disposal of over 288,000 gallons of petroleum-impacted wastewater.



Leaking underground water tanks.

On April 11, 2000, Allied Environmental Services, Inc., of Kansas City, KS; Koteswara Attaluri, President of Allied Environmental Services and Mac DeWayne Overholt, owner of Overholt Trucking, Terlton, OK, were sentenced in the Northern District of Oklahoma, Tulsa, OK. Allied Environmental Services was sentenced to 5 years probation and a special assessment of \$400. Attaluri was sentenced to be imprisoned for a term of 55 months and upon release 3 years supervised probation and pay special assessment of \$100. Overholt was sentenced to be imprisoned for a term of 87 months and upon release 3 years supervised probation and pay \$350. All three defendants were found jointly and severally liable for restitution in the amount of \$1,265,078.66.

## Be Alert for Fraud Indicators

The government employee, especially procurement officials and Contracting Officer Representatives, must be alert for possible instances of fraud. The best way to accomplish this is to be familiar with fraud indicators.

A fraud indicator only means that a given situation is susceptible to fraudulent practices. It does not mean that fraud exists. The NRC employee's role is not to prove fraud (the intent to deceive the government) but to refer **potential instances** of fraudulent practices to the NRC's Office of the Inspector General (OIG). The OIG is trained in numerous techniques for determining whether the intent to deceive NRC exists. Remember, fraud is most likely to occur when the opportunity for undetected misconduct outweighs the chance for being caught.

### FRAUD INDICATORS

#### Falsification of Documents

1. The unit price on the original invoices do not match the unit prices on the copies. Apparently, some have been altered by putting additional numbers in front of the price or by moving decimals.

2. Discount terms at the bottom of the invoice have been "whited out" so the employee would not notice an offered discount.

#### Fraud Indicators

- Original documentation consistently unavailable for the government official's review.
- Consistently poor, illegible copies of supporting documentation.
- Different supporting docu-

ments provided for the same items with unit prices varying widely for the same part, for no obvious reason.

The government employee should periodically reverify the integrity of the accounting and operating system he or she relies on. This can be done by doing transactional and compliance testing on a selected basis. In this case, it would involve requesting original documentation from the contractor to support the purchase order history. In other cases, the government employee may want to get third party confirmations from the actual vendors. This step might only be done on one or two transactions per purchase order. The employee must be alert to changes in how a system works after he or she has reviewed and accepted it. Reliance must be based on continual review.

## INTERNET ON-LINE FRAUD TIPS

### Online Auction Tips\*

- **Understand how the auction works.** Many online auctions simply list items that people want to sell. They don't verify if the merchandise actually exists or is described accurately.
- **Check out the seller.** For company information, contact the state or local Con-

sumer Protection Agency and Better Business Bureau where you live and also where the company is located. Look at the auction site's feedback section for comments about the seller. Be aware that glowing reports could be "planted" by the seller and that a clean complaint record doesn't guarantee that someone is legitimate.

- **Be especially careful if the seller is a private individual.** Most consumer protection laws and government agencies that enforce them don't deal with private sales, so if you have a problem, it could be impossible to resolve.

## Internet Online Fraud Tips con't.

- **Get a physical address and other identifying information.** You'll need the seller's name, street address and telephone number to check them out or follow up if there is a problem. Don't do business with sell-



Comparing bids on-line.

ers who won't provide that information.

- **Ask about delivery, returns, warranties and service.** Get a definite delivery time and insist that the shipment is insured. Ask about the return policy. If you're buying electronic goods or appliances, find out if there is a warranty and how to get service.
- **Be wary of claims about collectibles.** Since you can't examine the item or have it appraised until after the sale, you can't assume that claims made about it are valid. Insist on getting a written statement describing the item and its value before

you pay.

- **Use common sense to guide you.** Ask yourself. Is what the seller promises realistic? Is this the best way to buy this item? What is the most I am willing to bid for it?
- **Pay the safest way.** Requesting cash is a clear sign of fraud. If possible, pay by credit card because you can dispute the charges if the goods are misrepresented or never arrive. Or, use an escrow agent who acts as a go-between to receive the merchandise and forward your payment to the seller. Another option is cash on delivery (COD). Pay by check made out to the seller, not the post office, so you can stop payment if necessary.
- **Let the auction site know if you have a problem.** Some sites investigate problems like "shills"; being used to bid prices up or other abuses of the auction system. They may also want to know about sellers who don't deliver or misrepresent their wares. A bad record may result in a seller being barred from using the site again.

*\*The above information comes directly from the National Consumers League.*

## Helping Seniors Targeted for Telemarketing Fraud\*

How can you tell if an older relative, friend or client may be a target for telemarketing fraud?

### Here are some warning signs:

- The person received lots of junk mail for contests, "free trips," prizes and sweepstakes;
- The person gets frequent calls from people offering valuable awards, great money-making opportunities, or charitable donations;



- The person has lots of cheap items such as costume jewelry, watches, pens and pencils, small appliances, beauty products, water filters, or other products that he or she either purchased in order to "win" something or received as so-called "valuable prizes;"

## Helping Seniors, con't.

- The person has made numerous checks or withdrawals for escalating amounts of money to unfamiliar, out-of-state companies;
- The person begins to act very secretly about phone calls;
- The person is having payments picked up by private courier services or wiring money to companies;
- The person is having sudden problems paying bills, or buying food or other necessities.

### Don't:

- Blame the person for being stupid, greedy or foolish. Telemarketing swindlers are good at what they do and take advantage of people's honesty, politeness and optimism;
- Threaten to take away the person's financial or physical independence. This may only make the person secretive and resentful.

### Do:

- Help the person assemble the information to report the fraud to the state or local consumer protection agency or to the National Fraud Information Center;
- Emphasize the criminal nature of telemarketing fraud and help the person learn how to identify it;
- Encourage the person to hang up on telephone solici-

tations that seem suspicious;

- Have a calm discussion and try to come to an agreement about the best way to handle the person's finances in the future. If he or she seems to be truly incompetent, seek legal advice; help the person change his or her phone number, if necessary.

### Online Credit Card Tips\*

**Don't give out your credit card number online** unless the latest security protocols are in place and you know and trust the company in question.

When you input your credit card



information at a website or send it in an e-mail, that information is transmitted across the internet as if it were written on the back of a postcard. To ensure the security of your account, that information should be encrypted using the latest technology. A fraudulent site may tell you that you don't need to encrypt the information. Don't believe it.

**Don't trust a site just because it claims to be secure,**

Before using a secured transaction site, check out the encryption software it uses. Contact the company that is providing the technology to make sure that it is actually being used. Some sites may claim to be encrypted when they actually are not. If you are not sure, ask for an alternate method of payment.

- **Read the fine print.** If you receive an offer for a pre-approved credit card or if someone says they'll help you get a credit card, find out the details first. You need to know what interest rate you will be paying and for how long. Some credit cards offer low rates as "teasers" that are raised after a certain period of time or only apply to balances transferred from other cards. You also need to know about any annual fees, late charges or other fees, and whether there are grace periods for payment before interest is applied. If the terms of the offer aren't provided or aren't clear, look for a credit card from someone else.

*\*The above information comes directly from the National Consumers League*

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800-233-3497



Things People Actually Said In Court

- Q. What is your date of birth?  
A. July fifteenth.
- Q. What year?  
A. Every year.
- Q. What gear were you in at the moment of the impact?  
A. Gucci sweats and Reeboks.
- Q. All your responses must be oral, OK?  
What school did you go to?  
A. Oral.
- Q. Sir, what is your IQ?  
A. Well, I can see pretty well, I think.
- Q. Doctor, how many autopsies have you performed on dead people?  
A. All my autopsies are performed on dead people.
- Q. Doctor, before you performed the autopsy, did you check for a pulse?  
A. No.
- Q. Did you check for blood pressure?  
A. No.
- Q. Did you check for breathing?  
A. No.
- Q. So then it is possible that the patient was alive when you began the autopsy?  
A. No.
- Q. How can you be so sure, Doctor?  
A. Because his brain was sitting on my desk in a jar.
- Q. But could the patient have still been alive nevertheless?  
A. It is possible that he could have been alive and practicing law somewhere.

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## Call the Office of the Inspector General Hotline

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The Hotline does not investigate people who report misconduct. Investigations target people who are doing something wrong. Don't be afraid to report your concerns. Only by reporting wrongdoing can something be done.

Call:

800-233-3497

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